

# Greenbook

## LBO Analysis of Enacted Budget

### Ohio Public Works Commission

Tom Middleton, Senior Budget Analyst  
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# LBO Greenbook

## Ohio Public Works Commission

### Quick look...

- The Public Works Commission (PWC) administers three programs that provide grants and loans to local governments for infrastructure projects, as well as grants for conservation purposes. As of July 2019, the Commission employed nine full-time staff.
  - PWC's largest program is the State Capital Improvement Program (SCIP), funded by general obligation (GO) bond proceeds, which provides grants and loans for infrastructure projects, including road, bridge, wastewater, water supply, and stormwater projects.
  - The Clean Ohio Conservation Program (COCP) preserves greenspace throughout the state, and is also funded by GO bond proceeds.
  - The Local Transportation Improvement Program (LTIP) provides grants for local government road and bridge projects, and is funded by a portion of revenue from the Ohio motor fuel tax. LTIP receives appropriations in the transportation budget act, H.B. 62 of the 133<sup>rd</sup> General Assembly.
- Of total appropriations of around \$552.4 million over the FY 2020-FY 2021 biennium in H.B. 166, 99.5% is GRF funding to cover debt service on the GO bonds issued to pay for SCIP and COCP.
- The remaining 0.5% is non-GRF appropriations to cover the operating costs for SCIP and COCP.

Fund Group	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
General Revenue	\$250,749,698	\$260,928,571	\$273,557,600	\$276,149,300
Capital Project	\$948,375	\$985,633	\$1,450,179	\$1,196,886
Total	\$251,698,074	\$261,914,205	\$275,007,779	\$277,346,186
% change	--	4.1%	5.0%	0.9%
<i>GRF % change</i>	--	4.1%	4.8%	1.0%

### Appropriations overview

Under H.B. 166, 99.5% (\$549.7 million) of the budget for PWC over the FY 2020-FY 2021 biennium is slated for debt service on bonds issued to support the State Capital Improvement Program (SCIP) and Clean Ohio Conservation Program (COCP). More specifically, 83.5% (\$461.1 million) is for SCIP-related debt service while 16% (\$88.6 million) is for COCP-related debt service. The remaining 0.5% (\$2.6 million) of appropriations is budgeted for operating costs of the two programs.

### Matrix of legislation funding PWC capital programs and operations

PWC programs and operations receive funding under all three primary budget bills enacted by the General Assembly: the main operating budget, the transportation budget, and

the capital budget. The table below indicates the budget bills and time periods of funding associated with each of PWC's three programs.

PWC Programs and the Budget Bills that Fund Them				
PWC Program	Use of Funding	Enacted Budget Bill		
		Main Operating (FY 2020-FY 2021)	Transportation (FY 2020-FY 2021)	Capital (FY 2019-FY 2020)
		H.B. 166 of the 133 <sup>rd</sup> General Assembly	H.B. 62 of the 133 <sup>rd</sup> General Assembly	H.B. 529 of the 132 <sup>nd</sup> General Assembly
State Capital Improvements Program (SCIP)	Award Funding			✓
	Debt Service/ Operating Costs	✓		
Clean Ohio Conservation Program (COCP)	Award Funding			✓
	Debt Service/ Operating Costs	✓		
Local Transportation Improvement Program (LTIP)	Award Funding/ Operating Costs		✓	

The capital budget bill for the FY 2019-FY 2020 capital biennium, H.B. 529 of the 132<sup>nd</sup> General Assembly, was enacted in June 2018 and contained appropriations for program assistance under SCIP and COCP. H.B. 62, the transportation budget for the FY 2020-FY 2021 biennium, provides funding to administer and award grants to local governments under the motor fuel tax-supported LTIP. H.B. 166 contains the funding for debt service related to the bonds issued to fund SCIP and COCP, as well as to cover the operating costs of these two programs.

## Analysis of FY 2020-FY 2021 budget

### State Capital Improvement Program

Of the total \$552.4 million appropriated to PWC over the biennium under H.B. 166, \$463.1 million (84.0%) is slated to fund SCIP debt service and operating costs. In addition to detailing the appropriations for these purposes, this section provides a review of the program's financing, grant award process, and administration.

## SCIP debt service (ALI 150907)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
<b>GRF ALI 150907, Infrastructure Improvement General Obligation Bond Debt Service</b>					
\$218,564,731	\$220,270,129	\$216,031,148	\$220,719,157	\$229,338,800	\$231,754,500
% change	0.8%	-1.9%	2.2%	3.9%	1.1%

Since SCIP is financed using the proceeds of general obligation (GO) bonds, the programmatic funding is appropriated in the capital budget bill passed every two years. Enacted in June 2018, H.B. 529 of the 132<sup>nd</sup> General Assembly included appropriations of \$350 million for SCIP loans and grants during the FY 2019-FY 2020 capital biennium. In addition, H.B. 529 provided \$89.0 million for SCIP revolving loans, funded by reusing the principal and interest income from local government loan repayments from previously awarded SCIP loans.

GRF line item 150907, Infrastructure Improvement General Obligation Bond Debt Service, is used to cover the debt service costs related to the SCIP bonds. The authority to issue SCIP bonds is provided in sections 2p and 2s, Article VIII of the Ohio Constitution. The current cap on the amount of bonds that may be issued is \$175 million annually, and will increase to \$200 million annually beginning in FY 2022 through FY 2026. As of August 1, 2019, there was \$1.78 billion in SCIP debt outstanding.

### SCIP awards

Local governments may apply to PWC for grants or loans for a multitude of infrastructure projects, including capital improvements to (1) roads, (2) bridges, (3) culverts, (4) wastewater systems, (5) water supply systems, and (6) stormwater systems. Eligible applicants are counties, cities, villages, townships, and water, sewer, or sanitary (WSS) districts. Of the annual allocations, by statute, 10% (\$17.5 million) is set aside for small governments, including villages and townships with populations of 5,000 or less, and another 2% (\$3.5 million) is set aside to pay for emergency infrastructure projects.<sup>1</sup> The remaining 88% (\$154 million) is available under the application process as described below.

### *Application process*

SCIP funding is allocated annually on a per capita basis to each of the 19 district public works integrating committees (DPWICs) across the state, as set in R.C. 164.08. DPWICs consist of local officials representing all levels of government. The SCIP award may cover up to 100% of project costs. Eligible costs for grants include property and facility acquisition, engineering and design, and construction.

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<sup>1</sup> H.B. 62 of the 133<sup>rd</sup> General Assembly included a provision to amend the law to allow up to 6% of annual SCIP funding to be used for emergencies, at the discretion of PWC. This increase would go into effect in FY 2022, thus the potential effect of this additional allowance for emergency projects will not be seen until then.

Each DPWIC evaluates and scores applications using a locally developed methodology based on criteria listed in Chapter 164 of the Revised Code. These evaluation criteria focus on the financial need of the subdivision, the project's strategic importance to the district and subdivision, and emphasize the repair and replacement of infrastructure rather than new and expansionary infrastructure.

After evaluating and scoring the projects, a DPWIC creates a list of high-priority projects and submits them to PWC. PWC reviews the project selection and evaluation methodology used by the DPWIC to ensure fair and objective decision making. Then, each application is reviewed for completeness and project eligibility. After all requirements are met on the district level and the application is approved, a formal agreement is issued by PWC to the individual political subdivision. PWC's staff maintains ongoing contact with local communities, providing technical assistance through the project's completion.

### **SCIP operating costs (ALI 150321)**

<b>FY 2016 Actual</b>	<b>FY 2017 Actual</b>	<b>FY 2018 Actual</b>	<b>FY 2019 Actual</b>	<b>FY 2020 Appropriation</b>	<b>FY 2021 Appropriation</b>
<b>Fund 7038 ALI 150321, State Capital Improvements Program – Operating Expenses</b>					
\$735,497	\$684,545	\$713,418	\$738,492	\$1,085,834	\$895,864
% change	-6.9%	4.2%	3.5%	47.0%	-17.5%

Appropriations under this line item support SCIP's administrative expenses, which are funded by bond proceeds and investment income deposited into the State Capital Improvements Fund (Fund 7038). Administrative expenses include costs for project monitoring, processing disbursement requests, maintaining PWC's information systems, and preparing financial reports. SCIP comprises about 60% of the Commission's total administrative costs among the three infrastructure programs under PWC's purview. At any given time, PWC maintains an active portfolio of approximately 1,400 SCIP projects.

The increase in appropriations between FY 2019 and FY 2020 is largely attributable to the development of a new information technology (IT) platform to process applications and track PWC projects from award to completion. Since this project will benefit all three PWC infrastructure programs (SCIP, LTIP, and COCP), the costs of the project will be split among the operating line items of each program. SCIP's share of these costs is projected to be about \$240,000 in FY 2020 and \$27,000 in FY 2021, covering 60% of total project costs. In total, PWC will pay approximately \$444,000 for the IT project.

### **DPWIC administration**

H.B. 166 includes a provision allowing the State Capital Improvements Fund (Fund 7038) to be used to cover DPWIC operating costs. The bill allows up to \$1,235,000 in each of FY 2020 and FY 2021 to be made available for this purpose, and limits each of the 19 DPWICs from receiving more than \$65,000 per year. The amounts each district actually uses in each year will come out of their annual allotment for awards under the program. PWC is to define allowable costs that would be reimbursed under this authority, but the language specifies that indirect costs, elected official salaries and benefits, and project-specific costs are not allowable.

## Clean Ohio Conservation Program

PWC administers the greenspace component of the three-pronged Clean Ohio Conservation Program (COCP). Two other state agencies – the Department of Natural Resources (DNR) and the Department of Agriculture (AGR) – administer COCP funds for other conservation purposes. Of total bond funding, 75.0% is used for the COCP greenspace component overseen by PWC, 12.5% is for the Clean Ohio trails program overseen by DNR, and a final 12.5% is for the Clean Ohio agricultural easement purchase program overseen by AGR. Accordingly, H.B. 529 of the 132<sup>nd</sup> General Assembly included appropriations of \$75.0 million over the FY 2019-FY 2020 capital biennium for PWC’s component, and \$12.5 million for each of DNR’s and AGR’s components.

The goal of PWC’s greenspace component of COCP is to preserve open space, stream corridors, and other land valued for its ecological importance. The award process for the program is nearly identical to that for SCIP and LTIP, except that local governments and nonprofit organizations apply for funding through their natural resource assistance councils (NRACs) rather than DPWICs. From the inception of this Clean Ohio Conservation Program in FY 2003, PWC has awarded 1,238 projects a total of \$460.5 million in funding to preserve natural areas, watersheds, and other greenspace, an average of over \$372,000 per project.

Of the total \$552.4 million appropriated to PWC under H.B. 166, \$89.3 million (16.0%) is slated to fund COCP debt service and operating costs, as discussed in more detail below.

### COCP debt service (ALI 150904)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
<b>GRF ALI 150904, Conservation General Obligation Bond Debt Service</b>					
\$30,618,334	\$34,917,298	\$34,718,550	\$40,209,415	\$44,218,800	\$44,394,800
% change	14.0%	-0.6%	15.8%	10.0%	0.4%

Appropriations under GRF line item 150904 are used to pay debt service on the bonds already issued to support all three components of COCP, including (1) PWC’s greenspace acquisition program, (2) DNR’s recreational trails program, and (3) AGR’s agricultural easement purchase program.

Under sections 2o and 2q of Article VIII of the Ohio Constitution, up to \$400 million in GO bonds may be outstanding at any one time to support the Clean Ohio Conservation Program. The Constitution also requires that only \$50 million in bonds may be issued each year, plus the amount that could have been issued, but was not, in prior years. Thus far, the Ohio General Assembly has authorized a total of \$700 million in bonds, and of that amount, \$550 million has been issued. As of August 1, 2019, there was approximately \$290.9 million in COCP debt outstanding.

## COCP operating costs (ALI 150403)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
<b>Fund 7056 ALI 150403, Clean Ohio Conservation Operating</b>					
\$233,138	\$225,144	\$234,958	\$247,141	\$364,345	\$301,022
% change	-3.4%	4.4%	5.2%	47.4%	-17.4%

PWC's greenspace program under COCP provides payments to various property owners to acquire and provide access improvements to open space and enhance riparian corridors. The program primarily serves local governments and nonprofit organizations, as well as consultants and contractors hired to perform work on approved projects.

Operating costs are funded by bond proceeds and investment income earned from the Clean Ohio Conservation Fund (Fund 7056). PWC aligns its budget to reflect the administrative effort necessary to manage its programs. COCP comprises about 20% of all administrative costs incurred by PWC with about 200 projects being managed at any one time. The Commission's administrative activities involve reviewing and approving project applications, executing funding agreements, disbursing funds, and providing technical assistance.

As with the increased amount appropriated to cover operating costs under SCIP, the increase in appropriations for COCP operating costs between FY 2019 and FY 2020 is likewise attributable to PWC's intention to develop a new IT platform to process applications and track PWC projects from award to completion. Since this project will benefit all three PWC infrastructure programs (SCIP, LTIP, and COCP), the costs of the project will be split among the operating line items of each program. COCP's share of these costs is projected to be about \$80,000 in FY 2020 and \$9,000 in FY 2021, covering 20% of total project costs. In total, PWC will pay approximately \$444,000 for the IT project.

### NRAC administration

H.B. 166 includes a provision allowing the Clean Ohio Conservation Fund (Fund 7056) to be used to cover NRAC operating costs. The bill limits each of the 19 NRACs from receiving more than \$15,000 per year, making a total of \$285,000 for this purpose. The amounts each district actually uses in each year will come out of their annual allotment for awards under the program. PWC is to define allowable costs that would be reimbursed under this authority, but the language specifies that indirect costs, elected official salaries and benefits, and project-specific costs are not allowable.